Docket No. RM01-12-000
November 6, 2002 Technical Conference
Pricing Proposals for Transmission Upgrades and Expansions

Response to Technical Questions
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A. The definitions in the Commission's NOPR of transmission pricing categories are appropriate. MPUC suggests some minor changes to the categories:

1. *"Beneficiaries Pay"- The beneficiary, whether a single customer, a rate zone, the entire RTO, or a neighboring region as determined by the Independent Transmission Provider, pays for the up grades:*

The term "Independent Transmission Provider" should be pluralized (Independent Transmission Provider(s)) to reflect that transmission projects could span more than one ITP controla area

2. *"Market Based Participant Funding" - projects voluntarily proposed by individual market participants are voluntarily paid for by those participants, in order to use the expanded capacity and receive the Congestion Revenue Rights created.*

3. *"Rolled in Pricing" - projects are paid by all users of the regional grid.*

4. *"Local License plate pricing"- projects in a given service territory are paid for by those who pay the access charge in that territory.*

MPUC suggests that the Commission may also want to consider some way to include the cost of projects located in other service territories, but which provide benefits to those who pay access charges in a particular service territory as part of a license plate rate. For example, a project that spans multiple service territories (or states) but which primarily benefits a single service territory(or state). There should be a way to allocate project costs in other service territories to consumers in the territory which receives the benefit.

B. Definitions of categories of investments that must be addressed require further refinement/discussion:

1. *Region-wide reliability;*

The Commission should strive to clarify and separate economic "needs" from reliability problems at every opportunity. Region wide reliability means that the viability of the entire control area operated by an Independent Transmission Provider (ITP) is threatened by a loss of load event resulting in rolling black outs or brown outs. Loss of sub-regions should not be equated with regional reliability. Nor should the cost of dispatching expensive generation or pricey

alternative resources necessary to remedy threats be considered as a "reliability" issue.

2. *Local Reliability;*

When areas smaller than the control area operated by the ITP are threatened with loss of load events. The cost of dispatching expensive generation or alternative resources necessary to remedy those threats should also not be considered as "reliability" issues.

3. *Congestion relief.*

Congestion can be either an economic need or a physical shortage. Economic congestion arises when transmission capacity to transfer low cost generation from one sub-region to another is inadequate to satisfy the market demand. Physical congestion arises when all available generation within a sub-region has been dispatched, and the transmission capacity from other areas is still not adequate to meet the load. In short, a sign that physical congestion has occurred should be that the system operator has resorted to brown outs and involuntary load shedding to preserve the system.

C. *Which types of investments in (B) should be treated under each of the pricing policies in (A)?*

1. *Region-wide reliability;*

MPUC believes that if the Commission focuses very carefully on the distinction between reliability as an issue of physical necessity rather than one of economic scarcity, there will rarely if ever be a situation in which Region-wide reliability as opposed to sub-region reliability is threatened by inadequate transmission capacity. Should such a situation arise however, for which market based participant funding does not produce a remedy, it would be appropriate for an ITP to recommend a transmission proposal to remedy the problem. Distribution of benefits from proposed remedies will not be equally distributed and it is important to allocate the costs of the solution to the market participants in proportion to the benefits that they receive. Local license plate pricing would be a mechanism by which the costs of such projects could be recovered since the project beneficiaries within the service territory would receive the offsetting benefits.

2. *Local reliability;*

The cost of remedying local reliability problems should continue, as they always have been, to be recovered from customers of the utility within whose service territory the problem exists.

3. *Congestion relief.*

The ITP should not attempt to resolve economic congestion through transmission proposals. Economic congestion relief should be resolved through market-based participant funding with the ITP serving only as a facilitator. If the congestion is

physical and affects region wide reliability, see our response to B.1 above. If the congestion is physical and affects local area reliability, see our response to B.2.

D. *What barriers might remain under the proposed planning process to getting needed transmission built, and how can they be addressed better?*

As explained in more detail in our White Paper, ITPs should not be in the business of developing transmission projects that are "needed" in an economic sense. The economics of such projects would involve ITPs making significant economic decisions and committing societal resources based on multiple projections and assumptions some of them extending for many years. This is a function that is more appropriately fulfilled by market participants or, barring adequate market responses, by state regulators who are affected with the public trust and therefore empowered by statute to make such societal commitments.

1. Local transmission projects related to either improved reliability or congestion relief may be able to recover costs if the state commission in the area in which the need exists, approves a project identified by the ITP and proposes the project to the transmission utility with support for its request for recovery at the FERC through the local area license plate rate.

2. Region wide transmission projects that are economic and not needed to maintain the physical reliability of the system, should be resolvable through a negotiation process as such projects were formerly negotiated in New England (e.g. Hydro-Quebec Phase II line and the MEPCO project). The ITP could work to facilitate negotiated outcomes by bringing the financially affected parties together and identifying trade offs. If the Commission had transmission siting authority, and it determined for public policy reasons that such a project should be built, then the cost of the project should be allocated to consumers in proportion to the benefits that it will deliver, since this most closely resembles what would happen under voluntary negotiations, and also the methodology that is most easily defended as "just and reasonable."

3. As indicated above, MPUC believes that region wide projects necessary to preserve system wide reliability will be rare events. But when and if such situations arise, we believe that resistance to the projects will be reduced to the extent that the Commission or the ITP allocates the costs of the expansion in proportion to the benefits received from it. This is the cost allocation methodology that most closely resembles what would happen under voluntary negotiations, and also the methodology that is most easily defended as "just and reasonable."

E. *How much regional variation should be allowed in determining the appropriate pricing treatment for each category of investment?*

The Commission should not allow any regional variation in its pricing policy. Variations from the policy of "beneficiaries pay" stated in the NOPR should only be permitted when

there is an affirmative showing that an alternative cost recovery mechanism will address the goals of SMD and will be more equitable than the policy already set forth in the NOPR.

F. *Under market-based participant funding, should a market participant who funds an upgrade and receives the associated congestion revenue rights also pay an access charge to receive transmission service?*

Yes. Transmission upgrades will provide incremental increases in the transfer capacity of the system, but will not result in a situation which allows for "contract path" flows at all times. The participant will necessarily rely on the embedded system and should therefore, contribute to the recovery of its fixed costs.

G. In a region that moves to rely substantially on market-based participant funding, how should customers transition from transmission credits for network upgrades associated with generator interconnections to congestion revenue rights?

Transmission credits should be converted to CRRs and remain in the hands of those who held the credits.

H. In regions that propose to rely substantially on market-based participant funding, how can current wholesale network customers ensure that their load growth continues to be planned-for on a non-discriminatory basis?

1. All planning activities conducted by an ITP should be open to all market participants.

2. Wholesale network customers must participate in the planning process to ensure that their load growth is included in system load projections

3. When it is determined that a transmission upgrade will serve the interests of the wholesale network load, its representatives must be willing to commit the financial resources necessary to finance the project.

I. What accommodations should be made, if any, to account for the recovery of the costs of transmission expansion with state retail freezes.

This should not be the Commission's concern. If the Commission adopts the policy of allocating expansion costs to those who benefit and there is a state whose retail policies prevent collection of properly allocated expansion costs, no expansion to serve that state should be permitted.